

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

| | | | |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------|------------------------------------------------------|-------------------|
| Local Government Type: <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other | | Local Government Name: Charter Township of Emmett | County Calhoun |
| Audit Date March 31, 2005 | Opinion Date April 22, 2005 | Date Accountant Report Submitted To State: | |

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.


We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

| | Enclosed | To Be Forwarded | Not Required |
|---------------------------------------------------------------------|-------------------------------------|--------------------------|-------------------------------------|
| The letter of comments and recommendations. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Reports on individual federal assistance programs (program audits). | <input type="checkbox"/> | <input type="checkbox"/> | <input checked="" type="checkbox"/> |
| Single Audit Reports (ASLGU). | <input type="checkbox"/> | <input type="checkbox"/> | <input checked="" type="checkbox"/> |

| | | | |
|-------------------------------------------------------------------------------------------------------------|------|-------|-----|
| Certified Public Accountant (Firm Name): PLANTE & MORAN, PLLC | | | |
| Street Address | City | State | ZIP |
| Accountant Signature  | | | |

Charter Township of Emmett Calhoun County, Michigan

Financial Report
with Supplemental Information
March 31, 2005

Charter Township of Emmett

Contents

| | |
|---------------------------------------------------------------------------------------------------------------------------------------------|-------|
| Report Letter | 1-2 |
| Management's Discussion and Analysis | 3-7 |
| Basic Financial Statements | |
| Government-wide Financial Statements: | |
| Statement of Net Assets | 8 |
| Statement of Activities | 9 |
| Fund Financial Statements: | |
| Governmental Funds: | |
| Balance Sheet | 10 |
| Statement of Revenue, Expenditures, and Changes in Fund Balances | 11 |
| Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities | 12 |
| Proprietary Funds: | |
| Statement of Net Assets | 13 |
| Statement of Revenue, Expenses, and Changes in Fund Net Assets | 14 |
| Statement of Cash Flows | 15 |
| Notes to Financial Statements | 16-31 |
| Required Supplemental Information | 32 |
| Budgetary Comparison Schedule - General Fund | 33-37 |
| Budgetary Comparison Schedule - Major Special Revenue Funds | 38-39 |
| Note to Required Supplemental Information | 40 |
| Other Supplemental Information | 41 |
| Nonmajor Governmental Funds: | |
| Combining Balance Sheet | 42 |
| Combining Statement of Revenue, Expenditures, and Changes in Fund Balances | 43 |



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Independent Auditor's Report

To the Township Board
Charter Township of Emmett
Calhoun County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Charter Township of Emmett as of and for the year ended March 31, 2005, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Charter Township of Emmett's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Charter Township of Emmett as of March 31, 2005 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the Township Board
Charter Township of Emmett
Calhoun County, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Charter Township of Emmett's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

As described in Note 10, the Township has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and related statements, as of April 1, 2004.

Plante & Morse, PLLC

April 22, 2005

Charter Township of Emmett

Management's Discussion and Analysis

Our discussion and analysis of the Charter Township of Emmett's financial performance provides an overview of the Township's financial activities for the fiscal year ended March 31, 2005. Please read it in conjunction with the Township's financial statements.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended March 31, 2005:

- State-shared revenue, our second largest revenue source, was reduced by the State of Michigan by approximately \$46,000 this year. The Township reacted by monitoring expenditures closely, which resulted in a general fund balance decrease of \$359,000.
- Total net assets related to the Township's governmental activities decreased by approximately \$53,000.
- The Township refinanced approximately \$1.2 million of general obligation bonds through Calhoun County during the year to reduce future debt service payments.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the Township as a whole and present a long-term view of the Township's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the Township's operations in more detail than the government-wide financial statements by providing information about the Township's most significant funds.

Charter Township of Emmett

Management's Discussion and Analysis (Continued)

The Township as a Whole

The following table shows, in a condensed format, the net assets as of the current date as required by GASB 34 stated under the full accrual basis. In future years, when prior year information is available, a comparative analysis of government-wide data will be presented.

| | Governmental Activities 2005 | Business-type Activities 2005 | Total 2005 |
|--------------------------------------------------|------------------------------------|-------------------------------------|-----------------------------|
| Assets | | | |
| Current assets | \$ 1,549,824 | \$ 1,050,724 | \$ 2,600,548 |
| Noncurrent assets | <u>1,233,965</u> | <u>14,320,901</u> | <u>15,554,866</u> |
| Total assets | 2,783,789 | 15,371,625 | 18,155,414 |
| Liabilities | | | |
| Current liabilities | 175,429 | 315,666 | 491,095 |
| Long-term liabilities | <u>1,433,437</u> | <u>2,800,000</u> | <u>4,233,437</u> |
| Total liabilities | 1,608,866 | 3,115,666 | 4,724,532 |
| Net assets | | | |
| Invested in capital assets - Net of related debt | 523,523 | 9,742,634 | 10,266,157 |
| Unrestricted | <u>651,400</u> | <u>2,513,325</u> | <u>3,164,725</u> |
| Total net assets | <u>\$ 1,174,923</u> | <u>\$ 12,255,959</u> | <u>\$ 13,430,882</u> |

Charter Township of Emmett

Management's Discussion and Analysis (Continued)

The following table shows the changes of the net assets during as of the current date as required by GASB 34 stated under the full accrual basis. In future years, when prior year information is available, a comparative analysis of government-wide data will be presented.

| | Governmental Activities | Business-type Activities | Total |
|----------------------------------------|----------------------------|-----------------------------|---------------------|
| | 2005 | 2005 | 2005 |
| Revenue | | | |
| Program revenue - Charges for services | \$ 206,047 | \$ 614,413 | \$ 820,460 |
| Capital grants and contributions | 318,860 | 341,813 | 660,673 |
| General revenue: | | | |
| Property taxes | 1,397,307 | - | 1,397,307 |
| State-shared revenue | 900,794 | - | 900,794 |
| Unrestricted investment earnings | 27,341 | 127,456 | 154,797 |
| Franchise fees | 38,125 | - | 38,125 |
| Transfers and other revenue | 58,810 | (33,000) | 25,810 |
| Total revenue | 2,947,284 | 1,050,682 | 3,997,966 |
| Program Expenses | | | |
| General government | 523,748 | - | 523,748 |
| Public safety | 2,204,040 | - | 2,204,040 |
| Roads, highways, and street lights | 124,395 | - | 124,395 |
| Cemetery | 31,739 | - | 31,739 |
| Water and sewer | - | 1,276,833 | 1,276,833 |
| Interest on long-term debt | 116,637 | - | 116,637 |
| Total program expenses | 3,000,559 | 1,276,833 | 4,277,392 |
| Change in Net Assets | \$ (53,275) | \$ (226,151) | \$ (279,426) |

Charter Township of Emmett

Management's Discussion and Analysis (Continued)

Governmental Activities

The Township's General Fund revenue decreased by approximately \$60,000, with a reduction of \$45,700 related to the State-Shared Revenue decrease. The General Fund expenditures increased approximately \$84,000, with the most significant increases being increases in wage expenditures and renovation expenditures which were included in the Township's budget.

Business-type Activities

The Township's business-type activities consist of the Water and Sewer Fund. We provide water and sewage treatment to residents through the City of Battle Creek. The loss in net assets for the Water and Sewer Fund of \$226,000 is very comparable to the prior year loss of \$232,000. During the year, approximately \$127,000 of lines were donated by another governmental unit.

The Township's Funds

Our analysis of the Township's major funds begins on page 10, following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the Township as a whole. The Township Board creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The Township's major funds for 2005 include the General Fund, the Public Safety Fund, the Fire Truck Fund, and the Project #5 Fund.

The General Fund pays for most of the Township's governmental services. The Public Safety Fund incurred expenses of approximately \$2,092,000 for police and fire protection in 2005. Public safety is partially supported by two special millages, transfers from the General Fund and the Water and Sewer Fund. The amount transferred from the General Fund amounted to approximately \$1,067,000, and the amount transferred from the Water and Sewer Fund was approximately \$33,000.

General Fund Budgetary Highlights

Over the course of the year, the Township amended the budget to take into account events during the year. The most significant change to the General Fund was an increase to the estimated transfer from the General Fund to the Public Safety Fund which resulted in an increase of approximately \$18,000 to General Fund expenditures. There was also an increase to the Building and Equipment line item in the Building Authority department by approximately \$23,800 to account for renovation expenditures. The Public Safety Fund budget was also amended due to the change in the estimated cost of salaries and insurance costs, amounted to approximately \$120,000 and \$51,000, respectively.

Charter Township of Emmett

Management's Discussion and Analysis (Continued)

Capital Asset and Debt Administration

During the year ending March 31, 2005, the Township invested in building renovations. Due to the stagnant economy, plans for a new structure had to be replaced with much needed maintenance items. The significant internal renovations have allowed the Township to maximize workspace.

Economic Factors and Next Year's Budgets and Rates

The coming year will be challenging when you consider the precarious economy in Michigan. The Charter Township of Emmett is financially positioned to weather the current weak economy, but if it continues to erode the Township will have to further reduce the internal operational costs to avoid a negative financial position. The two POLC Labor Agreements expired on April 1, 2005 and negotiations for the succeeding 3-years are underway. The personnel (wages and benefit) costs within these agreements will play a large role in the overall financial position of the Township for the life of the agreements and beyond.

Contacting the Township's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Township's finances and to show the Township's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Clerk's office.

Charter Township of Emmett

Statement of Net Assets March 31, 2005

| | Primary Government | | |
|--------------------------------------------------|----------------------------|-----------------------------|-----------------------------|
| | Governmental Activities | Business-type Activities | Total |
| Assets | | | |
| Cash and investments (Note 3) | \$ 1,416,943 | \$ 930,580 | \$ 2,347,523 |
| Receivables - Net (Note 4) | 629,761 | 1,737,679 | 2,367,440 |
| Due from other governmental units | 7,351 | - | 7,351 |
| Bond issuance costs | 90,000 | - | 90,000 |
| Restricted assets (Note 1) | - | 10,732 | 10,732 |
| Capital assets - Net (Note 5) | <u>639,734</u> | <u>12,692,634</u> | <u>13,332,368</u> |
| Total assets | 2,783,789 | 15,371,625 | 18,155,414 |
| Liabilities | | | |
| Accounts payable | 14,509 | 165,666 | 180,175 |
| Deferred revenue (Note 4) | 8,146 | - | 8,146 |
| Noncurrent liabilities (Note 7): | | | |
| Due within one year | 152,774 | 150,000 | 302,774 |
| Due in more than one year | <u>1,433,437</u> | <u>2,800,000</u> | <u>4,233,437</u> |
| Total liabilities | 1,608,866 | 3,115,666 | 4,724,532 |
| Net Assets | | | |
| Invested in capital assets - Net of related debt | 523,523 | 9,742,634 | 10,266,157 |
| Unrestricted | <u>651,400</u> | <u>2,513,325</u> | <u>3,164,725</u> |
| Total net assets | <u>\$ 1,174,923</u> | <u>\$ 12,255,959</u> | <u>\$ 13,430,882</u> |

Charter Township of Emmett

Statement of Activities Year Ended March 31, 2005

| Functions/Programs | Program Revenues | | Net (Expense) Revenue and Changes in Net Assets | | |
|--------------------------------------------|---------------------|----------------------|-------------------------------------------------|-------------------------|--------------------------|
| | Expenses | Charges for Services | Capital Grants and Contributions | Primary Government | |
| | | | | Governmental Activities | Business-type Activities |
| | | | | | Total |
| Primary government: | | | | | |
| Governmental activities: | | | | | |
| General government | 523,748 | 192,359 | - | (331,389) | (331,389) |
| Public safety | 2,204,040 | 4,510 | - | (2,199,530) | (2,199,530) |
| Roads, highways and street lights | 124,395 | - | 318,860 | 194,465 | 194,465 |
| Cemetery | 31,739 | 9,178 | - | (22,561) | (22,561) |
| Interest on long-term debt | 116,637 | - | - | (116,637) | (116,637) |
| Total governmental activities | 3,000,559 | 206,047 | 318,860 | (2,475,652) | (2,475,652) |
| Business-type activities - Water and sewer | 1,276,833 | 614,413 | 341,813 | - | (320,607) |
| Total primary government | \$ 4,277,392 | \$ 820,460 | \$ 660,673 | (2,475,652) | (2,796,259) |
| General revenues: | | | | | |
| Property taxes | | | | 1,397,307 | 1,397,307 |
| State-shared revenues | | | | 900,794 | 900,794 |
| Unrestricted investment earnings | | | | 27,341 | 154,797 |
| Franchise fees | | | | 38,125 | 38,125 |
| Miscellaneous | | | | 25,810 | 25,810 |
| Transfers | | | | 33,000 | (33,000) |
| Total general revenues and transfers | | | | 2,422,377 | 2,516,833 |
| Decrease in Net Assets | | | | (53,275) | (279,426) |
| Net Assets - Beginning of year | | | | 1,228,198 | 13,710,308 |
| Net Assets - End of year | | | | \$ 1,174,923 | \$ 12,255,959 |
| | | | | | \$ 13,430,882 |

Charter Township of Emmett

Governmental Funds Balance Sheet March 31, 2005

| | General | Public Safety | Fire Truck | Project #5 Sewer and Water | Other Nonmajor Governmental Funds | Total Governmental Funds |
|----------------------------------------------------------|-------------------|-------------------|-------------------|----------------------------------|-----------------------------------------|--------------------------------|
| Assets | | | | | | |
| Cash and investments | \$ 129,517 | \$ 292,215 | \$ 285,266 | \$ 539,034 | \$ 170,911 | \$ 1,416,943 |
| Receivables - Net | 50,154 | 63,128 | 12,228 | 410,222 | 94,029 | 629,761 |
| Due from other funds | 344,997 | - | - | - | - | 344,997 |
| Due from other governmental units | 5,223 | 2,128 | - | - | - | 7,351 |
| Total assets | <u>\$ 529,891</u> | <u>\$ 357,471</u> | <u>\$ 297,494</u> | <u>\$ 949,256</u> | <u>\$ 264,940</u> | <u>\$ 2,399,052</u> |
| Liabilities and Fund Balances | | | | | | |
| Liabilities | | | | | | |
| Accounts payable | \$ 9,570 | \$ 4,328 | \$ 611 | \$ - | \$ - | \$ 14,509 |
| Due to other funds | - | 344,997 | - | - | - | 344,997 |
| Deferred revenue | - | 8,146 | - | 410,202 | 94,029 | 512,377 |
| Total liabilities | 9,570 | 357,471 | 611 | 410,202 | 94,029 | 871,883 |
| Fund Balances | | | | | | |
| Designated for debt service | - | - | 58,760 | - | - | 58,760 |
| Designated for welfare payments for sewer assessments | - | - | - | - | 106,848 | 106,848 |
| Unreserved, reported in: | | | | | | - |
| General Fund | 520,321 | | | | | 520,321 |
| Special Revenue Funds | | - | 238,123 | | - | 238,123 |
| Debt Service Funds | - | - | - | 539,054 | 64,063 | 603,117 |
| Total fund balances | 520,321 | - | 296,883 | 539,054 | 170,911 | 1,527,169 |
| Total liabilities and fund balances | <u>\$ 529,891</u> | <u>\$ 357,471</u> | <u>\$ 297,494</u> | <u>\$ 949,256</u> | <u>\$ 264,940</u> | <u>\$ 2,399,052</u> |

Amounts reported for governmental activities in the statement of net assets are different because:

| | |
|--------------------------------------------------------------------------------------------------------------------------------------------|---------------------|
| Capital assets used in governmental activities are not financial resources and are not reported in the funds | \$ 639,734 |
| Special assessment receivables are expected to be collected over several years, and are not available to pay for current year expenditures | 504,231 |
| Bond issuance costs | 90,000 |
| Long-term liabilities are not due and payable in the current period and are not reported in the funds | (1,586,211) |
| Net assets of governmental activities | <u>\$ 1,174,923</u> |

Charter Township of Emmett

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended March 31, 2005

| | General | Public Safety | Fire Truck | Project #5 Sewer and Water | Other Non-major Governmental Funds | Total Governmental Funds |
|---------------------------------------------------------|-------------------|---------------|-------------------|----------------------------------|---------------------------------------------|--------------------------------|
| Revenue | | | | | | |
| Property taxes | \$ 546,587 | \$ 710,174 | \$ 140,546 | \$ - | \$ - | \$ 1,397,307 |
| Special assessments | - | | | 93,053 | 24,785 | 117,838 |
| Licenses and permits | 124,726 | | | | - | 124,726 |
| State-shared revenues (and grants) | 893,149 | 7,645 | - | - | - | 900,794 |
| Charges for services | 60,010 | 3,133 | - | - | - | 63,143 |
| Fines and forfeitures | 7,623 | 48,680 | - | - | - | 56,303 |
| Lien payoff | - | - | - | - | 16,232 | 16,232 |
| Interest and rentals | 7,195 | - | 2,561 | 12,202 | 5,382 | 27,340 |
| Other | 3,469 | 7,134 | 1,000 | - | - | 11,603 |
| Total revenue | 1,642,759 | 776,766 | 144,107 | 105,255 | 46,399 | 2,715,286 |
| Expenditures | | | | | | |
| Current: | | | | | | |
| General government | 495,843 | - | - | - | - | 495,843 |
| Public safety | 204,421 | 1,887,947 | 17,029 | - | - | 2,109,397 |
| Roads, highways, and street lights | 124,395 | - | - | - | - | 124,395 |
| Cemetery | 31,739 | - | - | - | - | 31,739 |
| Other | 77,891 | - | - | 676 | 400 | 78,967 |
| Debt service: | | | | | | |
| Principal | - | - | - | 50,000 | 80,000 | 130,000 |
| Interest | - | - | - | 97,850 | 18,787 | 116,637 |
| Total expenditures | 934,289 | 1,887,947 | 17,029 | 148,526 | 99,187 | 3,086,978 |
| Excess (Deficiency) of Revenue Over Expenditures | 708,470 | (1,111,181) | 127,078 | (43,271) | (52,788) | (371,692) |
| Other Financing Sources (Uses) | | | | | | |
| Bond proceeds | - | - | - | 90,000 | - | 90,000 |
| Bond issuance costs | - | - | - | (90,000) | - | (90,000) |
| Transfers in | - | 1,100,719 | - | - | 55,929 | 1,156,648 |
| Transfers out | (1,067,719) | - | (55,929) | - | - | (1,123,648) |
| Total other financing sources (uses) | (1,067,719) | 1,100,719 | (55,929) | - | 55,929 | 33,000 |
| Net Change in Fund Balances | (359,249) | (10,462) | 71,149 | (43,271) | 3,141 | (338,692) |
| Fund Balances - Beginning of year | 879,570 | 10,462 | 225,734 | 582,325 | 167,770 | 1,865,861 |
| Fund Balances - End of year | \$ 520,321 | \$ - | \$ 296,883 | \$ 539,054 | \$ 170,911 | \$ 1,527,169 |

Charter Township of Emmett

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended March 31, 2005

| | |
|---------------------------------------------------------------|---------------------|
| Net Change in Fund Balances - Total Governmental Funds | \$ (338,692) |
|---------------------------------------------------------------|---------------------|

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation

| | |
|--------------|-----------|
| Additions | 207,351 |
| Depreciation | (112,722) |

Special assessment revenues are recorded in the statement of activities when the assessment is set; they are not reported in the funds until collected or collectible within 60 days of year end

| |
|---------|
| 201,021 |
|---------|

Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)

| |
|-----------|
| 1,305,009 |
|-----------|

Bond proceeds are not reported as financing sources on the statement of activities

| |
|--------------------|
| <u>(1,315,243)</u> |
|--------------------|

| | |
|--------------------------------------------------------|---------------------------|
| Change in Net Assets of Governmental Activities | <u>\$ (53,276)</u> |
|--------------------------------------------------------|---------------------------|

Charter Township of Emmett

Proprietary Funds Statement of Net Assets March 31, 2005

| | Enterprise - Water and Sewer |
|----------------------------------------------------|------------------------------------|
| Assets | |
| Current assets: | |
| Cash and cash equivalents | \$ 930,580 |
| Receivables - Net | <u>1,737,679</u> |
| Total current assets | 2,668,259 |
| Noncurrent assets: | |
| Restricted assets | 10,732 |
| Capital assets | <u>12,692,634</u> |
| Total noncurrent assets | <u>12,703,366</u> |
| Total assets | 15,371,625 |
| Liabilities | |
| Current liabilities: | |
| Accounts payable | 165,666 |
| Current portion of long-term debt | 150,000 |
| Noncurrent liabilities: | |
| Long-term debt - Net of current portion | <u>2,800,000</u> |
| Total liabilities | 3,115,666 |
| Net Assets | |
| Investment in capital assets - Net of related debt | 9,742,634 |
| Unrestricted | <u>2,513,325</u> |
| Total net assets | <u>\$ 12,255,959</u> |

Charter Township of Emmett

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended March 31, 2005

| | Enterprise - Water and Sewer |
|----------------------------------------------------|------------------------------------|
| Operating Revenue | |
| Charges for services | 614,413 |
| Operating Expenses | |
| Cost of sanitary sewer processed | 612,239 |
| Depreciation | 424,074 |
| Other | 80,726 |
| Total operating expenses | 1,117,039 |
| Operating Loss | (502,626) |
| Nonoperating Revenue (Expenses) | |
| Investment income | 127,456 |
| Interest expense | (159,794) |
| Loss - Before contributions and transfers | (534,964) |
| Capital Contributions - Special assessments | 341,813 |
| Transfers to Other Funds | (33,000) |
| Change in Net Assets | (226,151) |
| Net Assets - Beginning of year | 12,482,110 |
| Net Assets - End of year | \$ 12,255,959 |

Charter Township of Emmett

Proprietary Funds Statement of Cash Flows Year Ended March 31, 2005

| | Enterprise - Water and Sewer |
|-----------------------------------------------------------------------------------------|------------------------------------|
| Cash Flows from Operating Activities | |
| Receipts from customers | \$ 568,749 |
| Payments to suppliers | (618,328) |
| Payments to employees | <u>(30,534)</u> |
| Net cash used in operating activities | (80,113) |
| Cash Flows from Capital and Related Financing Activities | |
| Collection of customer assessments (principal and interest) | 352,534 |
| Transfers to other funds | (33,000) |
| Principal and interest paid on capital debt | <u>(309,794)</u> |
| Net cash provided by capital and related financing activities | 9,740 |
| Cash Flows from Investing Activities | |
| Interest received on investments | <u>7,827</u> |
| Net Decrease in Cash and Cash Equivalents | (62,546) |
| Cash and Cash Equivalents - Beginning of year | <u>993,126</u> |
| Cash and Cash Equivalents - End of year | <u>\$ 930,580</u> |
| Reconciliation of Operating Income to Net Cash from Operating Activities | |
| Operating loss | \$ (502,626) |
| Adjustments to reconcile operating income (loss) to net cash from operating activities: | |
| Depreciation and amortization | 424,074 |
| Changes in assets and liabilities: | |
| Receivables | (45,534) |
| Other assets | (130) |
| Accounts payable | <u>44,103</u> |
| Net cash used in operating activities | <u>\$ (80,113)</u> |

Noncash Investing, Capital, and Related Financing Activities - During the year ended March 31, 2005, the Water and Sewer Operations Fund received \$127,975 of lines donated by other governmental units; in addition, the Township financed the construction of \$213,838 of water and sewer mains by special assessments to residents.

Charter Township of Emmett

Notes to Financial Statements
March 31, 2005

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the Charter Township of Emmett (the "Township") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Charter Township of Emmett:

Reporting Entity

The Charter Township of Emmett is governed by an elected seven-member Board of Trustees. The accompanying general purpose financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include oversight responsibility, scope of public service, and special financing relationships. In accordance with generally accepted accounting principles, there are no component units to be included in these financial statements.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

Charter Township of Emmett

Notes to Financial Statements
March 31, 2005

Note 1 - Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period, or soon enough thereafter, to pay liabilities of the current period. For this purpose, the Township considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue, state gas and weight tax revenue, and interest associated with the current fiscal period. Conversely, special assessments and federal grant reimbursements will be collected after the period of availability; receivables have been recorded for these, along with a "deferred revenue" liability.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures and expenditures relating to claims and judgments are recorded only when payment is due.

The Township reports the following major governmental funds:

General Fund - The General Fund is the Township's primary operating fund. It accounts for all financial resources of the general government except those required to be accounted for in another fund. General Fund activities are financed by revenue from general property taxes, state-shared revenue, and other sources.

Public Safety Fund - The Public Safety Fund is used to account for the proceeds of earmarked revenue for financing the public safety activities of the Township.

Fire Truck Fund - The Fire Truck Fund is used to account for the proceeds of earmarked revenue or financing activities related to the Township fire truck fleet.

Project #5 Sewer and Water Project Fund - The Project #5 Sewer and Water Project Fund is used to account for the earmarked revenue and annual payment of principal, interest, and expenses in connection with Project #5 properties.

Charter Township of Emmett

Notes to Financial Statements
March 31, 2005

Note 1 - Summary of Significant Accounting Policies (Continued)

The Township reports the following major proprietary fund:

Water and Sewer Operations Fund – The Water and Sewer Operations Fund is used to account for the results of operations that provide a service to Township residents that are financed primarily by a user charge for the provision of that service. The service is provided to the Township through a contract with the City of Battle Creek. The current contract will expire in November 2005. The Township is currently working with the City of Battle Creek on a new contract.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The Township has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the Township's water and sewer function and various other functions of the Township. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. The Water and Sewer Operations Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Property Tax Revenue

Property taxes are levied on December 1 each year on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

The Township's 2004 tax is levied and collectible on December 1, 2004 and is recognized as revenue in the year ended March 31, 2005, when the proceeds of the levy are budgeted and available for the financing of operations.

Charter Township of Emmett

Notes to Financial Statements
March 31, 2005

Note 1 - Summary of Significant Accounting Policies (Continued)

The 2004 taxable valuation of the Township totaled \$295 million, on which taxes levied consisted of .8444 mills for operating purposes, .8565 mills for public safety, .8565 mills for public safety equipment, 1.6848 mills for grant retention, and .6290 mills for street lights. This resulted in \$250,000 for operating, \$254,000 for public safety, \$140,000 for public safety equipment, \$456,000 for grant retention, \$118,000 for street lights and approximately \$179,000 in administration fees and penalties. These amounts are recognized in the respective General and Special Revenue Funds financial statements as tax revenue.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

Restricted Assets - Specific assets of the Enterprise Fund have been restricted by provisions of contracts with Calhoun County. These funds are the remaining proceeds and interest earnings from the Calhoun County Water Supply and Sewage Disposal System bonds held by the County for completion of the project.

Capital Assets - Capital assets, which include property, plant, and equipment, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the Township as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Charter Township of Emmett

Notes to Financial Statements
March 31, 2005

Note 1 - Summary of Significant Accounting Policies (Continued)

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

| | |
|--------------------------------------|----------------|
| Water and sewer distribution systems | 50 years |
| Buildings and building improvements | 40 to 50 years |
| Vehicles | 3 to 5 years |
| Other tools and equipment | 3 to 7 years |

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change. The Township has designated retained earnings of the Enterprise Fund in order to establish a capital replacement and restoration reserve.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Charter Township of Emmett

Notes to Financial Statements
March 31, 2005

Note 2 - Stewardship, Compliance, and Accountability

Construction Code Fees - The Township oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The Township charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative surplus or shortfall generated since January 1, 2000 is as follows:

| | |
|--------------------------------------|---------------------|
| Surplus (shortfall) at April 1, 2004 | \$ (131,455) |
| Current year building permit revenue | 109,521 |
| Related expenses: | |
| Direct costs | (109,535) |
| Estimated indirect costs | <u>(31,824)</u> |
| Total construction code expenses | <u>(141,359)</u> |
| Net deficit | <u>\$ (163,293)</u> |

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan. The Township has designated two banks for the deposit of its funds.

The Township's deposits and investment policies are in accordance with statutory authority.

Charter Township of Emmett

Notes to Financial Statements March 31, 2005

Note 3 - Deposits and Investments (Continued)

At year end, the deposits and investments were reported in the basic financial statements in the following categories:

| | Governmental Activities | Business-type Activities | Total Primary Government |
|---------------------------|----------------------------|-----------------------------|-----------------------------|
| Cash and cash equivalents | \$ 919,185 | \$ 930,580 | \$ 1,849,765 |
| Investments | <u>497,758</u> | <u>-</u> | <u>497,758</u> |
| Total | <u>\$ 1,416,943</u> | <u>\$ 930,580</u> | <u>\$ 2,347,523</u> |

The breakdown between deposits and investments for the Township is as follows:

| | Primary Government |
|-------------------------------------------------------------------------------------|-----------------------|
| Bank deposits (checking accounts, savings accounts, and certificates of deposit) | \$ 1,849,315 |
| Investments in securities, mutual funds, and similar vehicles | 497,758 |
| Petty cash or cash on hand | <u>450</u> |
| Total | <u>\$ 2,347,523</u> |

Deposits

The bank balance of the Township's deposits is approximately \$2,385,000, of which approximately \$100,000 is covered by federal depository insurance and approximately \$2,285,000 is uninsured and uncollateralized. The Township believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Township evaluated each financial institution with which it deposits Township funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Charter Township of Emmett

Notes to Financial Statements
March 31, 2005

Note 3 - Deposits and Investments (Continued)

Investments

Investments are categorized into these three categories of credit risk:

Category 1 - Insured or registered, with securities held by the Township or its agent in the Township's name;

Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Township's name; and

Category 3 - Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the Township's name.

At year end, the Township's investment balances were categorized as follows:

| | Category | | | Reported Amount (Fair Value) |
|----------------------------|-------------------|-------------|-------------|------------------------------------|
| | 1 | 2 | 3 | |
| U.S. government securities | <u>\$ 349,595</u> | <u>\$ -</u> | <u>\$ -</u> | 349,595 |
| Mutual funds | | | | <u>148,163</u> |
| Total investments | | | | <u>\$ 497,758</u> |

Investments not subject to categorization are not evidenced by securities that exist in physical or book entry form. The mutual funds are not categorized because they are not evidenced by securities that exist in physical or book entry form. The mutual funds are registered with the SEC.

Charter Township of Emmett

Notes to Financial Statements March 31, 2005

Note 4 - Receivables

Receivables as of year end for the Township's individual major funds and nonmajor funds are as follows:

| | General Fund | Public Safety Fund | Fire Truck Fund | Project #5 Fund | Nonmajor and Other Funds | Total |
|---------------------|------------------|-----------------------|--------------------|--------------------|-----------------------------|-------------------|
| Receivables: | | | | | | |
| Taxes | \$ 42,152 | \$ 63,128 | \$ 12,228 | \$ - | \$ - | \$ 117,508 |
| Special assessments | - | - | - | 410,202 | 94,029 | 504,231 |
| Interest and other | <u>8,002</u> | <u>-</u> | <u>-</u> | <u>20</u> | <u>-</u> | <u>8,022</u> |
| Net receivables | <u>\$ 50,154</u> | <u>\$ 63,128</u> | <u>\$ 12,228</u> | <u>\$ 410,222</u> | <u>\$ 94,029</u> | <u>\$ 629,761</u> |

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

| | Unavailable | Unearned |
|--------------------------------------------------------------|-------------------|-----------------|
| Special assessments | \$ 504,231 | \$ - |
| Grant received prior to meeting all eligiblilty requirements | <u>-</u> | <u>8,146</u> |
| Total | <u>\$ 504,231</u> | <u>\$ 8,146</u> |

Charter Township of Emmett

Notes to Financial Statements March 31, 2005

Note 5 - Capital Assets

Capital asset activity of the Township's governmental and business-type activities was as follows:

| | Balance April 1, 2004 | Additions | Balance March 31, 2005 |
|--------------------------------------|-----------------------------|----------------------------|-----------------------------|
| Governmental Activities | | | |
| Capital assets being depreciated: | | | |
| Buildings and improvements | 1,687,137 | - | 1,687,137 |
| Vehicles | 1,128,668 | 75,381 | 1,204,049 |
| Other tools and equipment | 453,062 | 131,970 | 585,032 |
| Subtotal | 3,268,867 | 207,351 | 3,476,218 |
| Accumulated depreciation: | | | |
| Buildings and improvements | 1,578,054 | 7,933 | 1,585,987 |
| Vehicles | 985,138 | 62,982 | 1,048,120 |
| Other tools and equipment | 160,570 | 41,807 | 202,377 |
| Subtotal | 2,723,762 | 112,722 | 2,836,484 |
| Net capital assets being depreciated | <u><u>\$ 545,105</u></u> | <u><u>\$ 94,629</u></u> | <u><u>\$ 639,734</u></u> |
| Business-type Activities | | | |
| Capital assets being depreciated: | | | |
| Water and sewer distribution systems | 21,075,730 | 127,975 | 21,203,705 |
| Other tools and equipment | 45,283 | - | 45,283 |
| Subtotal | 21,121,013 | 127,975 | 21,248,988 |
| Accumulated depreciation: | | | |
| Water and sewer distribution systems | 8,086,997 | 424,074 | 8,511,071 |
| Other tools and equipment | 45,283 | - | 45,283 |
| Subtotal | 8,132,280 | 424,074 | 8,556,354 |
| Net capital assets being depreciated | <u><u>\$ 12,988,733</u></u> | <u><u>\$ (296,099)</u></u> | <u><u>\$ 12,692,634</u></u> |

Charter Township of Emmett

Notes to Financial Statements March 31, 2005

Note 5 - Capital Assets (Continued)

Depreciation expense was charged to programs of the primary government as follows:

| | |
|-------------------------------|-------------------|
| Governmental activities: | |
| General government | \$ 18,079 |
| Public safety | <u>94,643</u> |
| Total governmental activities | <u>\$ 112,722</u> |
| Business-type activities: | |
| Water and sewer | <u>\$ 424,074</u> |

Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

| Receivable Fund | Payable Fund | Amount |
|-----------------|---------------------------------|-------------------|
| General Fund | Special Revenue - Public Safety | <u>\$ 344,997</u> |

These balances result from the time lag between the dates that goods and services are provided and reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

Interfund transfers reported in the fund financial statements are comprised of the following:

| Fund Providing Resources | Fund Receiving Resources | Amount |
|--------------------------|---------------------------------|---------------------|
| General Fund | Special Revenue - Public Safety | \$ 1,067,719 |
| Water and Sewer Fund | Special Revenue - Public Safety | <u>33,000</u> |
| Total | | <u>\$ 1,100,719</u> |

Charter Township of Emmett

Notes to Financial Statements March 31, 2005

Note 7 - Long-term Debt

Long-term obligation activity can be summarized as follows:

| | | Interest Rate Ranges | Principal Maturity Ranges | Beginning Balance | Additions | (Reductions) | Ending Balance | Due Within One Year |
|----------------------------------------------------------|-------------|----------------------------|---------------------------------|----------------------|--------------|----------------|----------------|------------------------|
| Governmental Activities | | | | | | | | |
| General obligation bonds: | | | | | | | | |
| Sanitary Sewer Refunding bonds | | | | | | | | |
| Amount of issue: | \$1,720,000 | | | | | | | |
| Maturing through: | 2018 | 5.5% - 5.75% | \$50,000 - 115,000 | \$ 1,220,000 | \$ - | \$ (1,220,000) | \$ - | \$ - |
| Sanitary Sewer Refunding bonds | | | | | | | | |
| Amount of issue: | \$1,260,000 | | | | | | | |
| Maturing through: | 2018 | 3.0% - 4.0% | \$50,000 - 115,000 | - | 1,260,000 | | 1,260,000 | 50,000 |
| Installment purchase agreements: | | | | | | | | |
| <u>Fire Truck purchase</u> | | | | | | | | |
| Amount of issue: | \$500,000 | | | | | | | |
| Maturing through: | 2006 | 5.48% | \$50,000 | 100,000 | - | (50,000) | 50,000 | 50,000 |
| <u>Police vehicle</u> | | | | | | | | |
| Amount of issue: | \$21,977 | | | | | | | |
| Maturing through: | 2006 | 6.20% | \$5,009 - 5,999 | 15,977 | - | (5,009) | 10,968 | 5,319 |
| <u>Police vehicle</u> | | | | | | | | |
| Amount of issue: | \$75,681 | | | | | | | |
| Maturing through: | 2007 | 5.40% | \$17,455 - 20,438 | - | 55,243 | | 55,243 | 17,455 |
| Special assessment bonds: | | | | | | | | |
| Amount of issue: | \$420,000 | | | | | | | |
| Maturing through: | 2010 | 5.25% - 6.0% | \$25,000 - 40,000 | 240,000 | - | (30,000) | 210,000 | 30,000 |
| Total governmental activities | | | | \$ 1,575,977 | \$ 1,315,243 | \$ (1,305,009) | \$ 1,586,211 | \$ 152,774 |
| Business-type Activities | | | | | | | | |
| Special assessment bonds - Calhoun County Sanitary Bonds | | | | | | | | |
| Amount of issue: | \$3,265,000 | | | | | | | |
| Maturing through: | 2021 | 4.75% - 6.75% | \$150,000 - 200,000 | \$ 3,100,000 | \$ - | \$ (150,000) | \$ 2,950,000 | \$ 150,000 |

Charter Township of Emmett

Notes to Financial Statements March 31, 2005

Note 7 - Long-term Debt (Continued)

Annual debt service requirements to maturity for the above bonds and note obligations are as follows:

| | Governmental Activities | | | Business-type Activities | | |
|-----------|-------------------------|-------------------|---------------------|--------------------------|---------------------|---------------------|
| | Principal | Interest | Total | Principal | Interest | Total |
| 2006 | \$ 152,774 | \$ 44,030 | \$ 196,804 | \$ 150,000 | \$ 153,888 | \$ 303,888 |
| 2007 | 129,046 | 54,977 | 184,023 | 150,000 | 144,063 | 294,063 |
| 2008 | 129,391 | 49,553 | 178,944 | 150,000 | 133,638 | 283,638 |
| 2009 | 115,000 | 44,243 | 159,243 | 150,000 | 123,513 | 273,513 |
| 2010 | 125,000 | 39,648 | 164,648 | 150,000 | 113,388 | 263,388 |
| 2011-2015 | 500,000 | 138,354 | 638,354 | 825,000 | 430,833 | 1,255,833 |
| 2016-2020 | 435,000 | 44,068 | 479,068 | 975,000 | 213,156 | 1,188,156 |
| 2021-2025 | - | - | - | 400,000 | 19,000 | 419,000 |
| Total | <u>\$ 1,586,211</u> | <u>\$ 414,873</u> | <u>\$ 2,001,084</u> | <u>\$ 2,950,000</u> | <u>\$ 1,331,479</u> | <u>\$ 4,281,479</u> |

Current Refundings - During the year, the Township issued \$1.26 million in general obligation bonds with an average interest rate of 3.5 percent. The proceeds of these bonds were used to advance refund \$1.17 million of outstanding Western Calhoun County Sanitary Sewer System No. 1 Refunding bonds with an average interest rate of 4.97 percent. The net proceeds of \$1.2 million, after payment of approximately \$90,000 in underwriting fees, insurance, and other issuance costs, were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the original bonds. As a result, the bonds are considered to be defeased and the liability for the bonds has been removed from the Government-wide Statement of Net Assets. The advance refunding reduced total debt service payments over the next 14 years by approximately \$43,600 which represents an economic gain of approximately \$39,000.

Note 8 - Risk Management

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Township has purchased commercial insurance for medical benefits and workers' compensation claims and participates in the Michigan Municipal Risk Management Authority risk pool for claims relating to property loss. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal Risk Management Authority's State Pool program operates as a common risk-sharing management program for local units of government in Michigan. Member premiums are used to purchase excess insurance coverage and to pay member claims in excess of deductible amounts. A portion of the excess insurance coverage is underwritten by the Authority itself.

Charter Township of Emmett

Notes to Financial Statements
March 31, 2005

Note 9 - Retirement Plans

Defined Contribution Retirement Plan

The Township provides pension benefits to all of its full-time union employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to join the plan on January 1 of each year. As established by the Township Board, the Township contributes up to a 5 percent match of employees' gross earnings and employees contribute to the plan to the extent they wish to defer compensation. In accordance with these requirements, the Township contributed approximately \$8,500 and employee contributions were approximately \$9,300.

Defined Benefit Retirement Plan

Plan Description - The Charter Township participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer defined benefit pension plan that covers all employees of the Township. The system provides retirement, disability and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, MI 48917.

Funding policy - The obligation to contribute to and maintain the system for these employees was established by negotiation with the Township's competitive bargaining units and requires a contribution from the employees of 7.89 percent and 6.27 percent of gross wages for General and Police and Fire employees, respectively. The employees are required to contribute the percentage difference between the employer maximum contribution and the percentage necessary to fund the MERS plan. This was 3.58 percent for police and 12.97 percent for all other participants for the years ended March 31, 2005.

Annual Pension Cost - For year ended March 31, 2005 the Township's annual pension cost of approximately \$126,000 (\$57,000 employer and \$69,000 employee) for the plan was equal to the Township's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2002, using the entry age actuarial cost method. Significant actuarial assumptions used include (a) an 8 percent investment rate of return assuming 4.5 percent per year inflation, (b) projected salary increases of 4.5 percent per year based on inflation, and (c) additional projected salary increases of 0 to 4.5 percent per year, based on age-related scale to reflect merit, longevity and promotional increases. The actuarial value of assets was determined using techniques that smooth the effects of short term volatility over a four year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis.

Charter Township of Emmett

Notes to Financial Statements March 31, 2005

Note 9 - Retirement Plans (Continued)

Three year trend information is as follows:

| | Fiscal Year Ended March 31 | | |
|-------------------------------|----------------------------|-----------|-----------|
| | 2005 | 2004 | 2003 |
| Annual pension cost | \$ 69,046 | \$ 59,096 | \$ 46,232 |
| Percentage of APC contributed | 100% | 100% | 100% |

| | Actuarial Valuation as of December 31 | | |
|-----------------------------------------|---------------------------------------|--------------|--------------|
| | 2003 | 2002 | 2001 |
| Actuarial value of assets | \$ 1,405,082 | \$ 1,216,528 | \$ 1,075,251 |
| Actuarial accrued liability | 1,622,170 | 1,435,075 | 1,218,290 |
| Unfunded AAL | 217,088 | 218,547 | 143,039 |
| Funded ratio | 87.00% | 85.00% | 88.26% |
| Covered payroll | 1,012,322 | 868,363 | 836,052 |
| UAAL as a percentage of covered payroll | 21.44% | 25.17% | 17.11% |

Note 10 - Accounting and Reporting Change

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. The Charter Township of Emmett has applied the provisions of this statement in the accompanying financial statements (including the notes to the financial statements). The Township has elected to implement the general provisions of the statement in the current year. Certain significant changes in the statement include the following:

- A Management's Discussion and Analysis (MD&A) section providing an analysis of the Township's overall financial position and results of operations
- Financial statements prepared using full accrual accounting for all of the Township's activities
- A change in the fund financial statements to focus on the major funds
- The governmental activities column of the statement of net assets includes approximately \$640,000 of capital assets that would previously have been reported in the General Fixed Assets Account Group
- The governmental activities column includes bonds and other long-term obligations totaling \$1,576,000 previously reported in the General Long-term Debt Account Group

Charter Township of Emmett

Notes to Financial Statements
March 31, 2005

Note 11 - Subsequent Events

On April 1, 2005, the labor agreements with the POLC expired. The Township is currently in negotiations and retroactive payments are not anticipated.

Also subsequent to year-end, the Township secured an installment purchase plan for four public safety vehicles with an estimated total cost of approximately \$189,000.

Required Supplemental Information

Charter Township of Emmett

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended March 31, 2005

| | Original Budget | Amended Budget | Actual | Variance with Amended Budget |
|-----------------------------------------------------|--------------------|-------------------|-----------|------------------------------------|
| Resources (Inflows) | | | | |
| Taxes | | | | |
| Operating | 249,773 | 227,773 | 249,547 | 21,774 |
| Street lights | 119,646 | 107,042 | 118,359 | 11,317 |
| Trailer fees | 2,300 | 2,246 | 2,246 | - |
| Current road assessments | - | 16,979 | 16,979 | - |
| Administration fees | 144,183 | 142,407 | 151,415 | 9,008 |
| Penalties and miscellaneous | 9,000 | 8,014 | 8,041 | 27 |
| Total Taxes | 524,902 | 504,461 | 546,587 | 42,126 |
| State sources | 913,885 | 892,954 | 893,149 | 195 |
| License and permits | | | | |
| Registration fees | 1,000 | 1,300 | 1,310 | 10 |
| Building permits | 80,400 | 63,661 | 63,661 | - |
| Electrical permits | 19,000 | 16,371 | 16,371 | - |
| Plumbing permits | 19,000 | 10,770 | 10,770 | - |
| Mechanical permits | 19,000 | 18,719 | 18,719 | - |
| Zoning and planning | 12,000 | 7,000 | 7,000 | - |
| Junk yard licenses | 1,650 | 2,148 | 2,148 | - |
| Plan review fees | 7,000 | 2,717 | 2,697 | (20) |
| Land division fees | 3,000 | 3,000 | 2,050 | (950) |
| Total Licenses and Permits | 162,050 | 125,686 | 124,726 | (960) |
| Charges for services | | | | |
| Printed materials | 1,500 | 449 | 449 | - |
| Cemetery lots/open close/foundations | 7,000 | 9,178 | 9,195 | 17 |
| Rebate - Summer taxes | 11,600 | 12,241 | 12,241 | - |
| Cable TV - Franchise | 38,000 | 38,000 | 38,125 | 125 |
| Total Charges for Services | 58,100 | 59,868 | 60,010 | 142 |
| Fines and Forfeits - Ordinance fines from County | 3,000 | 7,620 | 7,623 | 3 |
| Interest earned | 6,500 | 7,189 | 7,195 | 6 |
| Miscellaneous | 1,400 | 3,499 | 3,469 | (30) |
| Transfer from other funds | 33,000 | 33,000 | 33,000 | - |
| Total Revenue | 1,702,837 | 1,634,277 | 1,675,759 | 41,482 |

Charter Township of Emmett

Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended March 31, 2005

| | Original Budget | Amended Budget | Actual | Variance with Amended Budget |
|---------------------------------------------|--------------------|-------------------|---------|------------------------------------|
| Charges to Appropriations (Outflows) | | | | |
| General government: | | | | |
| Township Board | | | | |
| Salaries | 9,400 | 3,360 | 6,360 | (3,000) |
| Conferences and related expenses | 500 | 120 | 120 | - |
| Professional fees | 16,000 | 14,653 | 14,653 | - |
| Board of review | 750 | 300 | 300 | - |
| Advertising and publishing | 5,000 | 2,023 | 2,023 | - |
| Dues and memberships | 4,700 | 4,388 | 4,388 | - |
| Miscellaneous | 350 | 170 | 170 | - |
| Group insurance | 200 | 167 | 167 | - |
| Social security | 802 | 510 | 510 | - |
| Administration fees | 1,000 | 1,816 | 1,816 | - |
| Total Township Board | 38,702 | 27,507 | 30,507 | (3,000) |
| Assessing | | | | |
| Salaries | 86,719 | 87,041 | 87,041 | - |
| Office supplies | 3,600 | 1,376 | 1,376 | - |
| Social security | 6,806 | 6,546 | 6,546 | - |
| Group insurance | 20,844 | 21,208 | 21,208 | - |
| Dues and memberships | 260 | 363 | 363 | - |
| Miscellaneous | 2,250 | 6,188 | 6,188 | - |
| Conferences | 1,245 | 1,250 | 1,250 | - |
| Capital outlay | 4,500 | 3,752 | 3,752 | - |
| Professional fees | 700 | 648 | 648 | - |
| Total Assessing | 126,924 | 128,372 | 128,372 | - |
| Supervisor | | | | |
| Salaries | 38,649 | 38,621 | 38,621 | - |
| Office supplies | 200 | 7 | 7 | - |
| Conferences and related expenses | 800 | 957 | 957 | - |
| Communications | 800 | 800 | 800 | - |
| Transportation | 900 | 825 | 825 | - |
| Social security | 3,050 | 2,894 | 2,860 | 34 |
| Group insurance | 12,234 | 15,183 | 15,183 | - |
| Total Supervisor | 56,633 | 59,287 | 59,253 | 34 |

Charter Township of Emmett

Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended March 31, 2005

| | Original Budget | Amended Budget | Actual | Variance with Amended Budget |
|------------------------------------|--------------------|-------------------|---------------|------------------------------------|
| Treasurer | | | | |
| Salaries | 46,689 | 49,776 | 49,776 | - |
| Computer maintenance | 1,000 | 845 | 845 | - |
| Office supplies | 3,500 | 4,007 | 4,007 | - |
| Transportation | 320 | 315 | 315 | - |
| Conferences and related expenses | 600 | 374 | 374 | - |
| Social security | 3,881 | 3,806 | 3,806 | - |
| Capital outlay | 1,000 | - | - | - |
| Group insurance | 30 | 60 | 60 | - |
| Total Treasurer | 57,020 | 59,183 | 59,183 | - |
| Building Authority | | | | |
| Supplies | 2,500 | 2,779 | 2,779 | - |
| Telephone | 2,000 | 1,518 | 1,518 | - |
| Postage | 11,600 | 9,657 | 9,657 | - |
| Building and equipment maintenance | 16,700 | 40,524 | 40,524 | - |
| Electricity | 3,200 | 2,911 | 2,911 | - |
| Heat | 3,200 | 1,875 | 1,875 | - |
| Water and sewer | 700 | 712 | 712 | - |
| Refuse service | 800 | 789 | 789 | - |
| Miscellaneous | 35 | 35 | 35 | - |
| Total Building Authority | 40,735 | 60,800 | 60,800 | - |
| Elections | | | | |
| Salaries | 30,400 | 33,721 | 33,721 | - |
| Social security | 1,853 | 1,523 | 1,523 | - |
| Office supplies | 2,500 | 3,774 | 3,774 | - |
| Miscellaneous | 16,734 | 7,623 | 7,623 | - |
| Total Elections | 51,487 | 46,641 | 46,641 | - |
| Clerk | | | | |
| Salaries | 63,261 | 63,218 | 63,218 | - |
| Office supplies | 1,500 | 265 | 265 | - |
| Conferences | 1,500 | 1,593 | 1,593 | - |
| Dues and memberships | 600 | 271 | 271 | - |
| Social security | 4,839 | 4,601 | 4,601 | - |
| Group insurance | 22,578 | 22,128 | 22,128 | - |
| Miscellaneous | 4,860 | 2,756 | 2,756 | - |
| Total Clerk | 99,138 | 94,832 | 94,832 | - |

Charter Township of Emmett

Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended March 31, 2005

| | Original Budget | Amended Budget | Actual | Variance with Amended Budget |
|---------------------------------------------|--------------------|-------------------|---------|------------------------------------|
| Planning commission | | | | |
| Salaries | 5,000 | 3,100 | 3,100 | - |
| Zoning board expenses | 2,800 | 1,740 | 1,740 | - |
| Outside services | 2,000 | 388 | 388 | - |
| Social security | 616 | 367 | 367 | - |
| Miscellaneous | 1,500 | - | - | - |
| Printing and publishing | 1,500 | 1,154 | 1,154 | - |
| Total Planning Commission | 13,416 | 6,749 | 6,749 | - |
| Data Processing | | | | |
| Outside services | 6,000 | 5,676 | 5,676 | - |
| Office supplies | - | 173 | 83 | 90 |
| Capital outlay | - | 2,208 | 2,208 | - |
| Communications | - | 1,539 | 1,539 | - |
| Total Data Processing | 6,000 | 9,596 | 9,506 | 90 |
| Total General Government | 490,055 | 492,967 | 495,843 | (2,876) |
| Public services | | | | |
| Salaries | 52,717 | 55,082 | 55,082 | - |
| Building and zoning inspector | 74,758 | 71,695 | 71,695 | - |
| Electrical and mechanical inspector | 22,500 | 29,816 | 29,816 | - |
| Plumbing inspector | 11,250 | 8,024 | 8,024 | - |
| Office supplies | 2,510 | 1,952 | 1,952 | - |
| Communications | 1,400 | 1,836 | 1,836 | - |
| Conferences and related expenses | 1,000 | 600 | 600 | - |
| Dues and memberships | 225 | 80 | 80 | - |
| Legal | 3,500 | 8,632 | 8,632 | - |
| Social security | 12,870 | 12,600 | 12,600 | - |
| Group insurance | 7,541 | 7,958 | 7,958 | - |
| Equipment maintenance | 1,325 | 563 | 563 | - |
| Printing and publishing | 250 | 40 | 40 | - |
| Inspectors plan review | - | 1,869 | 1,869 | - |
| Capital outlay | 1,500 | 2,116 | 2,116 | - |
| Miscellaneous | 400 | - | - | - |
| Outside services | - | 1,558 | 1,558 | - |
| Total Public Services | 193,746 | 204,421 | 204,421 | - |
| Roads, Highways, and Street Lights | | | | |
| Street lights | 120,000 | 107,416 | 107,416 | - |
| Street improvements | 200 | 16,979 | 16,979 | - |
| Total Roads, Highways, and Street Lights | 120,200 | 124,395 | 124,395 | - |

Charter Township of Emmett

Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended March 31, 2005

| | Original Budget | Amended Budget | Actual | Variance with Amended Budget |
|-----------------------------------------|--------------------|-------------------|-------------------|------------------------------------|
| Cemetery | | | | |
| Maintenance | 27,800 | 28,352 | 28,352 | - |
| Grave openings | 4,500 | 3,005 | 3,005 | - |
| Capital outlay | 1,500 | 355 | 355 | - |
| Transportation | 100 | 27 | 27 | - |
| Total Cemetery | 33,900 | 31,739 | 31,739 | - |
| Other | | | | |
| Retirement pension | 24,000 | 23,679 | 23,679 | - |
| Insurance | 39,500 | 44,264 | 44,264 | - |
| Miscellaneous | 3,000 | 9,948 | 9,948 | - |
| Total Other | 66,500 | 77,891 | 77,891 | - |
| Transfers to other funds | 867,611 | 885,000 | 1,100,719 | (215,719) |
| Total charges to appropriations | 1,772,012 | 1,816,413 | 2,035,008 | (218,595) |
| Net change in fund balance | (69,175) | (182,136) | (359,249) | (177,113) |
| Fund Balance - Beginning of year | 879,570 | 879,570 | 879,570 | - |
| Fund Balance - End of year | \$ 810,395 | \$ 697,434 | \$ 520,321 | \$ (177,113) |

Charter Township of Emmett

Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Funds – Public Safety Year Ended March 31, 2005

| | Public Safety Fund | | | Variance with |
|----------------------------------------------------------------------------------------------------|--------------------|---------------------|-------------|-------------------|
| | Original Budget | Amended Budget | Actual | Amended Budget |
| Revenue | | | | |
| Taxes | 713,389 | 646,538 | 710,174 | 63,636 |
| Fines and forfeitures | 63,100 | 48,680 | 48,680 | - |
| Charges for services | 7,100 | 2,538 | 3,133 | 595 |
| Grants | 75,200 | - | - | - |
| State sources | 6,000 | 7,645 | 7,645 | - |
| Miscellaneous | 8,800 | 6,720 | 7,134 | 414 |
| Total revenue | 873,589 | 712,121 | 776,766 | 64,645 |
| Expenditures | | | | |
| Utilities | 9,550 | 17,674 | 17,675 | (1) |
| Insurance | 102,000 | 125,883 | 125,883 | - |
| Salaries | 870,304 | 990,478 | 1,002,476 | (11,998) |
| Operating supplies | 5,500 | 24,761 | 24,761 | - |
| Office supplies | 7,000 | 8,332 | 8,332 | - |
| Uniforms, accessories, and cleaning | 18,000 | 16,732 | 16,732 | - |
| Holiday pay | 25,200 | 23,665 | 23,665 | - |
| Equipment maintenance and rental | 45,600 | 53,180 | 53,180 | - |
| Transportation | 27,000 | 40,801 | 40,801 | - |
| Conferences and related expenses | 7,500 | 10,576 | 10,576 | - |
| Legal | 43,000 | 34,035 | 34,035 | - |
| Miscellaneous | 7,701 | 11,389 | 11,208 | 181 |
| Capital outlay | 54,405 | 66,988 | 66,988 | - |
| Social Security | 74,241 | 78,148 | 78,150 | (2) |
| Group insurance, physicals, and pensions | 216,726 | 267,691 | 267,601 | 90 |
| M.A.P.E.S. | 100,000 | 105,884 | 105,884 | - |
| Total expenditures | 1,613,727 | 1,876,217 | 1,887,947 | (11,730) |
| Excess (Deficiency) of Revenue Over Expenditures | (740,138) | (1,164,096) | (1,111,181) | 52,915 |
| Other Financing Sources (Uses) | | | | |
| Operating transfers in | 867,611 | 927,505 | 1,100,719 | 173,214 |
| Excess (Deficiency) of Revenue and Other Financing Sources Over Expenditures and Other Uses | 127,473 | (236,591) | (10,462) | 226,129 |
| Fund Balance - Beginning of year | 10,462 | 10,462 | 10,462 | - |
| Fund Balance - End of year | \$ 137,935 | \$ (226,129) | \$ - | \$ 226,129 |

Charter Township of Emmett

Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Funds – Fire Truck Year Ended March 31, 2005

| | Fire Truck Fund | | | Variance with |
|----------------------------------------------------------------------------------------------------|-------------------|-------------------|-------------------|------------------|
| | Original Budget | Amended Budget | Actual | Amended Budget |
| Revenue | | | | |
| Property taxes | 140,506 | 140,506 | 140,546 | 40 |
| Interest income | 3,000 | 3,000 | 2,561 | (439) |
| Miscellaneous | - | - | 1,000 | 1,000 |
| Total revenue | 143,506 | 143,506 | 144,107 | 601 |
| Expenditures | | | | |
| Vehicle maintenance | 12,000 | 12,000 | 8,647 | 3,353 |
| Capital outlay | 64,400 | 64,400 | 8,382 | 56,018 |
| Total expenditures | 76,400 | 76,400 | 17,029 | 59,371 |
| Excess (Deficiency) of Revenue Over Expenditures | 67,106 | 67,106 | 127,078 | 58,770 |
| Other Financing Sources (Uses) | | | | |
| Operating transfers out | (54,815) | (54,815) | (55,929) | 1,114 |
| Excess (Deficiency) of Revenue and Other Financing Sources Over Expenditures and Other Uses | 12,291 | 12,291 | 71,149 | 59,884 |
| Fund Balance - Beginning of year | 225,734 | 225,734 | 225,734 | - |
| Fund Balance - End of year | <u>\$ 238,025</u> | <u>\$ 238,025</u> | <u>\$ 296,883</u> | <u>\$ 59,884</u> |

Charter Township of Emmett

Note to Required Supplemental Information
March 31, 2005

Note 1 - Budgetary Information

Budgetary Information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund and all Special Revenue Funds. A budget for the Special Revenue HUD Block Grant Fund is available at the Township Clerk's office. All annual appropriations lapse at fiscal year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at March 31, 2005 has not been calculated. The budget is adopted on a line-item basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law.

Excess of Expenditures Over Appropriations in Budgeted Funds - During the year, the Township under budgeted a transfer from the General Fund to the Special Revenue – Public Safety Fund. The actual transfer to the Public Safety Fund was greater than the amount budgeted, creating a significant variance in budget to actual statement in the General Fund. This variance was covered by beginning fund balance.

Other Supplemental Information

Charter Township of Emmett

Other Supplemental Information Nonmajor Governmental Funds Combining Balance Sheet March 31, 2005

| | Special Revenue Funds | Debt Service Funds | | |
|----------------------------------------|--------------------------|--------------------|-------------|-----------------------------------------|
| | HUD Block Grant | Bradford Water | Fire Truck | Total Nonmajor Governmental Funds |
| Assets | | | | |
| Cash and investments | \$ 106,848 | \$ 64,063 | \$ - | \$ 170,911 |
| Receivables - Net | - | 94,029 | - | 94,029 |
| Total assets | \$ 106,848 | \$ 158,092 | \$ - | \$ 264,940 |
| Liabilities and Fund Balances | | | | |
| Liabilities - Deferred revenue | \$ - | \$ 94,029 | \$ - | \$ 94,029 |
| Fund Balances - Unreserved | 106,848 | 64,063 | - | 170,911 |
| Total liabilities and fund balances | \$ 106,848 | \$ 158,092 | \$ - | \$ 264,940 |

Charter Township of Emmett

Other Supplemental Information Nonmajor Governmental Funds Combining Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended March 31, 2005

| | Special Revenue Funds | | Debt Service Funds | | |
|---------------------------------------------------------|--------------------------|------------------|--------------------|-----------|-----------------------------------------|
| | HUD Block Grant | Bradford Water | Fire Truck | | Total Nonmajor Governmental Funds |
| Revenue | | | | | |
| Special assessments | \$ - | \$ 24,785 | \$ - | \$ | 24,785 |
| Lien payoff | 16,232 | - | - | | 16,232 |
| Interest income | 349 | 5,033 | - | | 5,382 |
| Total revenue | 16,581 | 29,818 | - | | 46,399 |
| Expenditures | | | | | |
| Miscellaneous | - | 400 | - | | 400 |
| Debt service | | | | | |
| Principal | - | 30,000 | 50,000 | | 80,000 |
| Interest | - | 12,858 | 5,929 | | 18,787 |
| Total expenditures | - | 43,258 | 55,929 | | 99,187 |
| Excess (Deficiency) of Revenue Over Expenditures | 16,581 | (13,440) | (55,929) | | (52,788) |
| Other Financing Sources | | | | | |
| Operating transfers in | - | - | 55,929 | | 55,929 |
| Fund Balances - Beginning of year | 90,267 | 77,503 | - | | 167,770 |
| Fund Balances - End of year | <u>\$ 106,848</u> | <u>\$ 64,063</u> | <u>\$ -</u> | <u>\$</u> | <u>170,911</u> |

April 22, 2005

Township Board
Charter Township of Emmett
620 Cliff Street
Battle Creek, MI 49014

Ladies and Gentleman:

We would like to take this opportunity to thank you and your staff for the assistance we received during the audit for the year ended March 31, 2005. We would like to offer the following significant issues for your consideration. In planning and performing our audit of the financial statements of the Charter Township of Emmett for the year ended March 31, 2005, we considered the Township's internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. The consideration we gave to the internal control was not sufficient for us to provide any form of assurance on it. However, we noted certain matters involving the internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions are significant deficiencies in the design or operation of the internal control that have come to our attention and, in our judgment, could adversely affect the Township's ability to record, process, summarize, and report financial data consistent with management's assertions inherent in the financial statements.

The following item is considered to be a reportable condition and not a material weakness.

Common Cash Bank Reconciliations

During our audit, we noted that cash accounts are not reconciled to the general ledger. An option that may help in the efficiency of bank reconciliation preparation would be to consolidate bank accounts and use due to and due from accounts to accurately account for the cash in each fund. The accurate and timely preparation of bank reconciliations is vital to maintaining effective internal controls over cash, including knowledge of cash balances at any given time. It appears that the Treasurer and the Clerk are reconciling the monthly cash activity with the exception of reconciling the general ledger to the bank statement. Reconciling general ledger to the bank statement is a responsibility mandated by the State of Michigan and is also an essential internal control for the Township.

Inspector Policy

During our audit, we noted no documented policy exists regarding the payment method for inspectors. It appears there are standard practices regarding fees and percentages, but there is not a written policy, which has been approved by the board. We recommend the Township institute a written policy

outlining in detail the method by which inspectors are to be paid for their services. Having this policy documented may help to avoid future disputes over payment and help to ensure that policies are being followed appropriately.

Capitalization Policy

We noted, during our audit, the Township does not have a documented capitalization policy. We recommend the Township institute a capitalization policy for fixed assets, including specifying an amount for which disbursements should be capitalized. We would be able to provide a sample of an appropriate capitalization policy. Having such a policy helps to ensure fixed assets are recorded appropriately in accordance with the implementation of GASB 34.

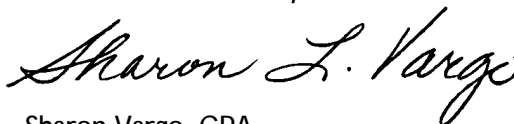
Industry Update

In the municipal industry, one way local governments experience time efficiencies is through the outsourcing of the payroll function. Companies, such as Payroll One, PayChex, ADP, and Ceridian, will, for a small fee, process your payroll checks, print payroll journals and deduction registers, provide earnings statements, make the appropriate withholding payments, generate the related tax reports (Form 941, etc.), and even track leave time, if requested. This would certainly simplify the process for the Township and, also, allow the Clerk's office more time to devote to other matters, including analytical functions.

We would like to take this opportunity to thank you again for the honor of serving the Charter Township of Emmett as its independent certified public accountants.

Very truly yours,

PLANTE & MORAN, PLLC



Sharon Vargo, CPA
Partner



Kim Hoppe, CPA
Associate